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Why Banks Have So Much Money

By ALBERT W. ATWOOD

WE are asked why banks in this country, and especially in New York City, are so "flush" with money at the present time. Newspapers describe the situation by saying the bank vaults are ready to burst or overflow. That is figurative, but a good many persons really fail to understand why there should be so much more money in the banks now than, let us say, two years ago. Perhaps some folks feel they are not getting their share of it.

Not long ago a financial paper showed that nineteen large manufacturing companies actually had \$350,000,000 in cash, or its equivalent, on December 31, 1915. Probably the total is much greater now. The United States Steel Corporation alone had \$100,000,000. These great sums had piled up because of the increased business in steel, copper, munitions, and similar products. The manufacturers either had war orders or were selling materials to companies that were filling war orders. But corporations do not keep such huge sums of money in their own offices. It all goes into the banks.

One bank in New York City practically doubled its deposits in 1915, reaching the stupendous total of \$600,000,000. Several smaller concerns doubled their deposits in the same time. In Philadelphia, Detroit, Minneapolis, and other large cities money poured into the banks almost as fast. Why should there be so sudden and tremendous an expansion?

The chief reason is to be found in the importation of \$400,000,000 of gold into this country in 1915. Foreign nations had to pay for vast quantities of supplies, and at times they had nothing else to pay with. But it must not be supposed that the bulk of the increase in bank money consisted of gold.

Most so-called money in the bank is not money at all, strictly speaking. A bank does a great many different things, but the most important work it accomplishes is not very well understood. This is to create "money" in the form of bank checks. These bank checks, and not gold, silver, or notes, are what do the work of the country. We call a deposit in the bank "money," and there is perhaps twenty or twenty-five billion dollars of such "money" in this country, while there is actually less than four billion in gold, silver, and notes.

A shoe dealer needs "money" to pay the manufacturer. He goes to his bank, gives the bank his note, and borrows "money," which is placed to his credit. He writes out a check on the bank and sends it to the manufacturer. So what the bank really does is to exchange its own credit, which is good anywhere, for the shoe dealer's credit, which is good, but not well known enough to circulate. The bank is protected because it is careful to whom it lends and averages its risks over a great many different borrowers, besides charging well for its services. Above all, it is not permitted to make any loans unless it has a certain legally fixed amount of real money in its vaults.

\$400,000,000 Came Here Last Year

JUST one more point: Most borrowers not only do not cart away the "money" they are entitled to in gold, but they actually leave on deposit a part of what they have borrowed. Even if borrowers at once check out all they are entitled to, which is rare, the loan is used to increase the borrower's business, and this soon means more deposits for the bank. So the fact that \$400,000,000 in gold came into the country last year gave the banks just that much more lending power; because, as before stated, they must always keep a fixed percentage of their business on hand in real money, and as the loans grew so grew the deposits. Another reason there is so much money in the banks is because, under the new Federal Reserve Law, they do not have to keep as

large a percentage of gold and other real money in their vaults as formerly.

This country has lent more than a billion dollars to foreigners since the war started. But hardly a dollar has left the country. These so-called loans were simply book credits extended to foreign governments, which promptly used the credits to buy more munitions from our manufacturers, and those purchases in turn resulted in creating still more bank credit money.

Perhaps the most interesting explanation of the increase in money is one that can not be proved at this time. Europeans of wealth, it is rumored, have sent their possessions to this country for safe keeping until the war is over.

When the banks are flush with money, as they are now, it should be easy for deservng individuals and enterprises to obtain loans. The fact is that innumerable concerns which could not have got a hearing two years ago are able to borrow now. But they are mostly in lines of business that are booming and that can show a big profit within a year or two. The very fact that they have so much idle, loose, easy money makes, or should make, bankers more cautious than ever about placing it at the disposal of merely visionary or unreliable promoters.

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